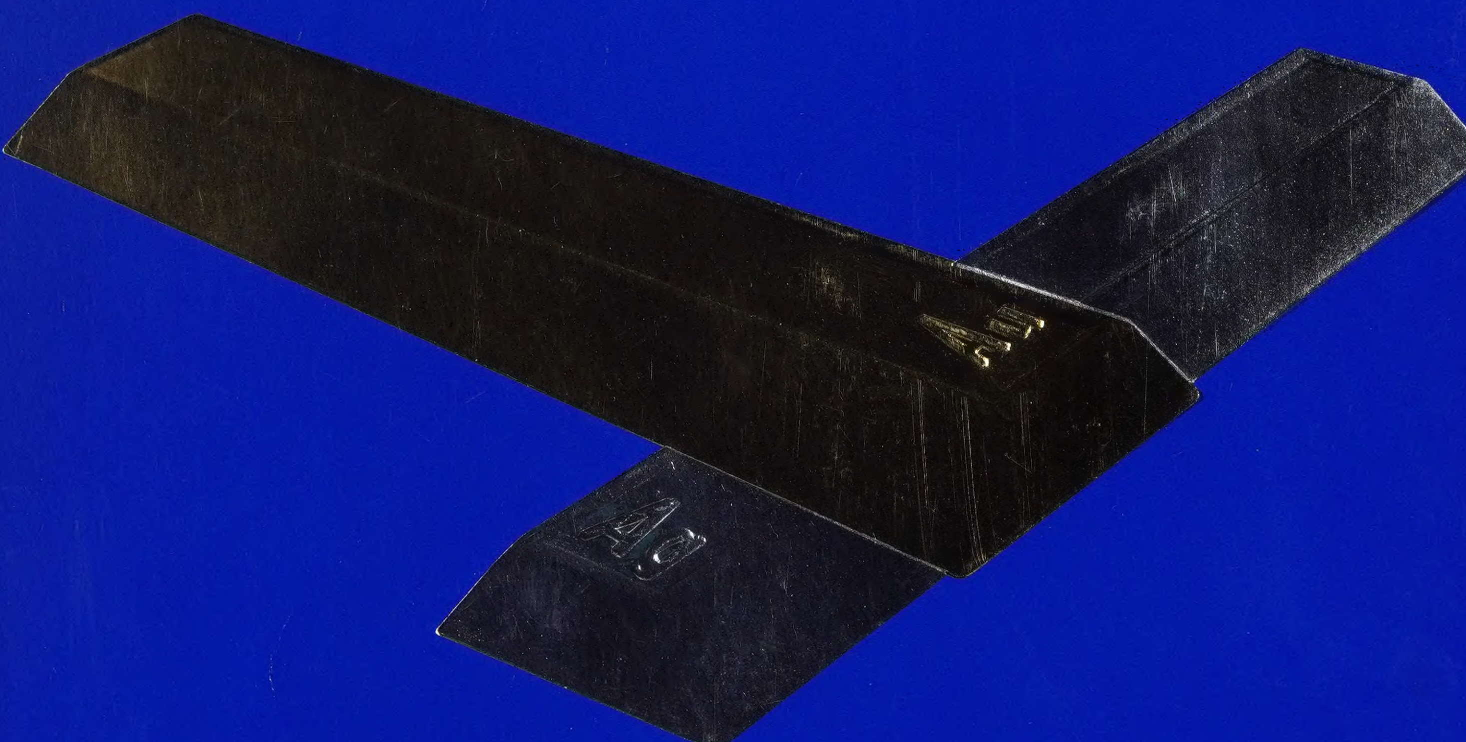
annual report

1976



AGNICO-EAGLE

mines limited

The headframe and mining plant at the Beaver-Temiskaming Property, Cobalt Camp, Ontario. The extensive underground program at this group of former producing mines, exploring and developing the underlying lower contact of the Nipissing, is the continuation of a program that was initiated in 1971.

AGNICO-EAGLE
mines limited

ANNUAL REPORT TO SHAREHOLDERS

For the Year Ended December 31, 1976

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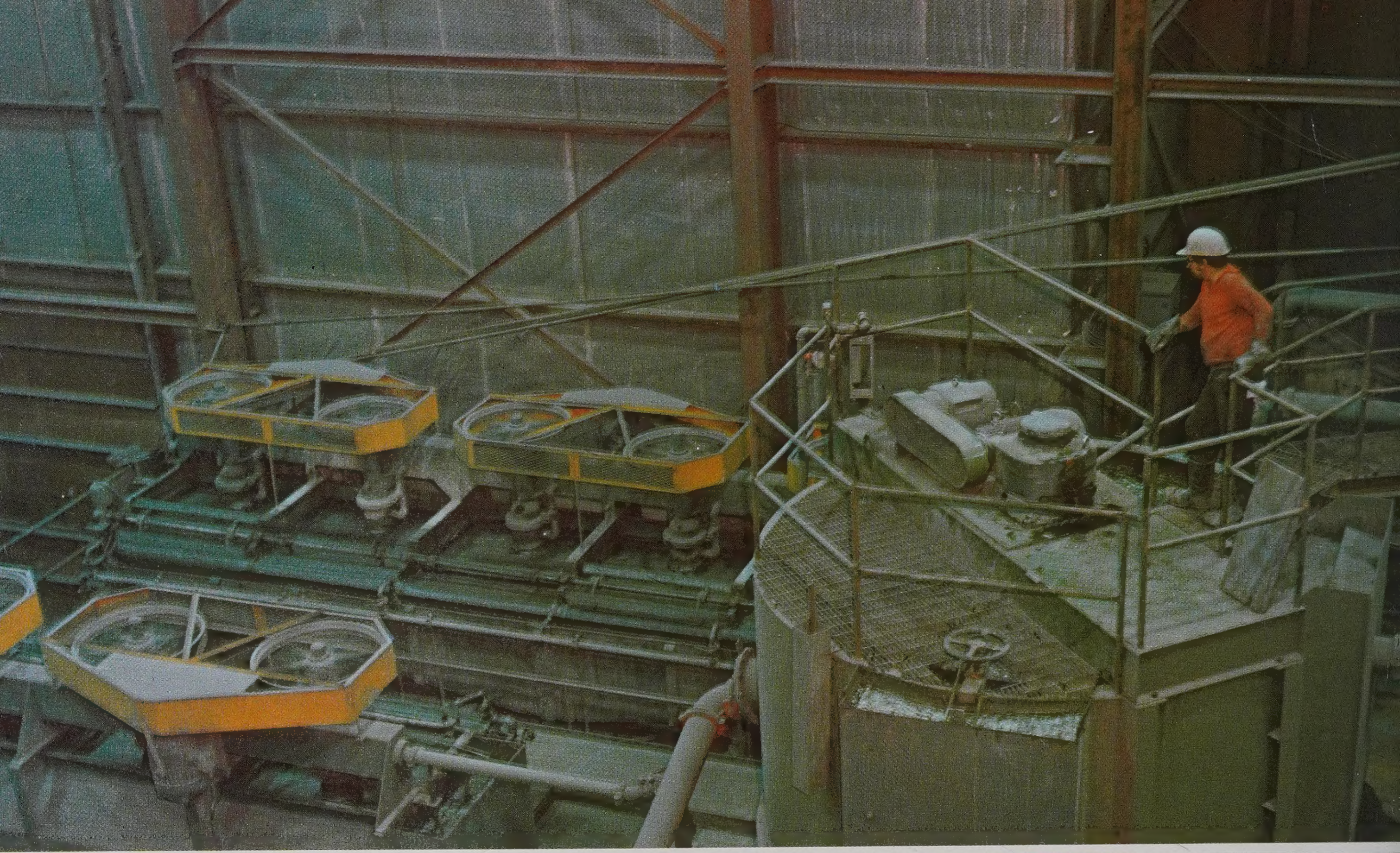
OUR FRONT COVER

The overlapping gold and silver bars (Au — Gold, Ag — Silver) reflect the amalgamation in 1972 of Agnico Mines Limited and Eagle Gold Mines Limited. This theme is continued in the corporate graphic symbol in the outlined 'A' signifying the shaft headframe which was long a component of predecessor Agnico Mines' corporate symbol, which is superimposed by the stylized eagle representing Eagle Mines Limited. The sphere at the foot of the eagle is the symbolic form for gold and it encases the Tree of Life — the immortality of the mineral extractive industry.




ALLIS-CHALMERS

OFFICERS

PAUL PENNA, President and Managing Director
MIKEY DRUTZ, Secretary-Treasurer

DIRECTORS

IRVING DOBBS, Insurance Executive
GORDON W. KIRK, P.Eng., Mining Engineer
MILTON KLYMAN, Broker-Dealer, M. Greene & Associates Limited
WILLIAM H. MOLLE, President, Eidolon Corporation Limited
PAUL PENNA, Executive Jakmin Investments Limited
JOHN R. MURRAY, Retired, Formerly Deputy Chief,
Metropolitan Toronto Police

MINE STAFF – SILVER DIVISION

Mine Manager, Gordon W. Kirk, P.Eng.
Chief Geologist and Engineer, Brian Thorniley, B.Sc., M.Sc., P.Eng.
Mine Superintendent, Armand R. Cote, P.Eng.
Mill Superintendent, Gordon W. Wilson, P.Eng.
Chief Accountant, Herbert O. Johnson

MINE STAFF – GOLD DIVISION

Mine Manager, Donald J. LaRonde, B.Sc., P.Eng.
Assistant Manager and Mill Superintendent, Karol O. Mikulash, P.Eng.
Chief Geologist and Chief Engineer, Anton Adamcik, B.Sc.
Mechanical Superintendent, Amy Dupas
Chief Electrician, Michel Caron
Underground Superintendent, Ronald Daigle
Administrative Manager, Laurent Belanger

CONSULTING GEOLOGIST

W. A. Hubacheck, B.Sc., P.Eng.

EXECUTIVE AND HEAD OFFICE

Suite 300, 365 Bay Street,
Toronto, Ontario, Canada M5H 2V1

MINE OFFICE – SILVER DIVISION

P.O. Box 140, Cobalt, Ontario P0J 1C0

MINE OFFICE – GOLD DIVISION

P.O. Box 310, Joutel, Quebec J0Y 1N0

AUDITORS

Starkman, Kraft, Rothman, Berger & Grill,
Chartered Accountants, Toronto, Ontario

SOLICITORS

Shibley, Righton & McCutcheon,
Toronto, Ontario

BANKERS

The Toronto-Dominion Bank,
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada
88 University Avenue, Toronto, Ontario
427 St. James Street, Montreal, Quebec

SHARE LISTINGS

The Toronto Stock Exchange, Toronto, Canada
Montreal Stock Exchange, Montreal, Canada
Ticker Symbol "AGE"
O.T.C. in United States of America
NASDAQ Symbol "AEAGF"

ANNUAL MEETING OF SHAREHOLDERS

Friday, June 24, 1977 at 10:00 a.m. (Toronto Time),
Library, Royal York Hotel,
Toronto, Canada

Alongside upper (right) is the new 1,200 cubic foot flotation cell which together with the associated secondary grinding unit was commissioned in December, 1975. Lower picture shows the 12′ by 18′ ball mill.

President's Report to the Shareholders

Developments at your Company's separate gold and silver mining divisions highlighted the major corporate events for the 1976 year. The new mill extension at the gold mining division, Joutel, Quebec, provided definite improvement in metallurgical recoveries and enabled a significant increase in the mill treatment rate and gold bullion production.

Shaft deepening at the gold mine, extending the workings an additional 1,100 feet toward the objective depth of 2,965 feet, or virtually double the depth from the current bottom production level at 1,500 feet, has made very satisfactory progress. The level station at the 2,250 foot horizon was recently completed and the shaft is now at a depth of approximately 2,500 feet.

Completion of this phase of the shaft deepening program is now scheduled for this coming September at which time commencement of underground development at the new lower levels is anticipated. When completed, this project will provide nine new production levels. The exploratory drilling below the 1,500 foot horizon which was partially described in the 1975 Annual Report, was continued in the first half of the year, further substantiating the strong indications for above mine average grade of ore down to the current maximum tested depth at 2,250 feet or some 750 feet below the bottom production level.

As emphasized on many occasions, the fact that the orebody is a sulphide deposit rather than the more typical quartz vein type, provides the high probability for continuation to great depth as well as laterally into the adjacent Company-owned Telbel property. Moreover, there is also the good possibility of other bodies occurring on strike and parallel to the known main structure.

Turning to the Company's silver mining division, the very recent findings in the extensive and long range underground program at the Beaver-Temiskaming properties in the Cobalt Camp of Ontario have shown excellent potential for substantial new silver production in what must be regarded as a likely major geological break-through.

This important new development at the Beaver-Temiskaming more than offsets the shortfall in silver production from the Company's Coniagas Mine during 1976 which nevertheless produced nearly 200,000 ounces of silver with a value exceeding $750,000. The previously projected production of one million ounces of silver for 1976 is now more likely to be realized in full measure during the current year.

In recognition of the significance attached to the Beaver-Temiskaming Project, a detailed review of the underlying geological concept and summary of the encouraging recent drill results, together with appropriate explanatory diagramatic illustrations, are included in this Annual Report.

In spite of the reduced gold and silver prices experienced during 1976, your Company was able to maintain a positive cash generation from mining operations. Against the approximate 25% decline in the realized price for gold during the year ($123.55 versus $160.00 in 1975), the gold mining division had an operating profit of $2,003,935 and after deduction of capital expenditures totalling $162,948 yielded a net division cash flow of $1,840,987. In contrast, the silver mining division experienced an operating loss of $311,065.

These financial results are before deduction of non-cash items including amortization and depreciation totalling, on a combined basis, $2,495,970, and producing a bottom-line figure showing a net loss for the year of $1,362,238 equal to 9.8¢ per share as compared with a net profit in 1975 of $1,270,332 or 9.2¢ per share.

Results for 1977 First Quarter

Gross revenue for the gold division during the first quarter of 1977 was $2,123,356 and a net division cash flow of $532,157. Gold production amounted to 14,555 ounces from the treatment of 90,605 tons of ore.

Gross revenue for the silver division in the first quarter amounted to $72,542. Silver production was limited owing to the shut down of the Penn Mill in the second week of January due to adverse winter weather conditions. Silver production was 13,347 ounces from the treatment of 1,940 tons of ore. Division operating loss was $159,953.

Consolidated cash flow for the 1977 first quarter amounted to $316,619. Deduction of non-cash items including amortization and depreciation totalling $527,458 together with head office, administrative and other expenses resulted in a consolidated net loss for the period of $128,964.

Operating results for the gold division durint the month of April, 1977 were production of 5,591 ounces of gold from the treatment of 31,066 tons of ore. Gross revenue amounted to $875,214 and a net division cash flow for the month of $339,934.

In terms of costs per ounce of gold recovered, which is the important factor in the determination of profit margins at specific gold prices, available 1976 industry statistics indicate that your Company, with its 1976 costs of $92.27 per ounce, is third ranking among the gold producers in Canada, with the majority of operators reporting costs in a range between $110.00 to $120.00 per ounce or higher.

These cost factors are also prevalent for the majority of the South African gold producers.

The shortfall from the Company's predicted production of between 75,000 and 80,000 ounces of gold for 1976 as compared with the actual 64,343 ounces recovered, is a factor of the treatment of ore grading below the reserve average for the area of the mine from which ore was extracted during the year. Efforts are being made to achieve a closer relationship between the reserve grade and the actual mill feed. An improvement in this regard would have the dual effect of increasing gold production and reducing the unit cost per ounce recovered.

To illustrate this point: Using the 1976 total tons of ore treated (345,538) and assuming a mill feed approximating reserve grade between the 1500 level and surface (viz., 0.25 ounce per ton) and a nominal recovery rate of 90%, the arithmetic production figure would have been approximately 77,750 ounces.

Gold Division

As mentioned in the 1975 Annual Report, milling operations would be restricted to approximately 1,000 tons per day to enable the hoisting of additional waste rock in connection with the driving of the ore and waste pass systems and the shaft deepening program. These factors will continue to prevail during the current year as shaft sinking progresses and the commencement of lateral development on the new deeper levels.

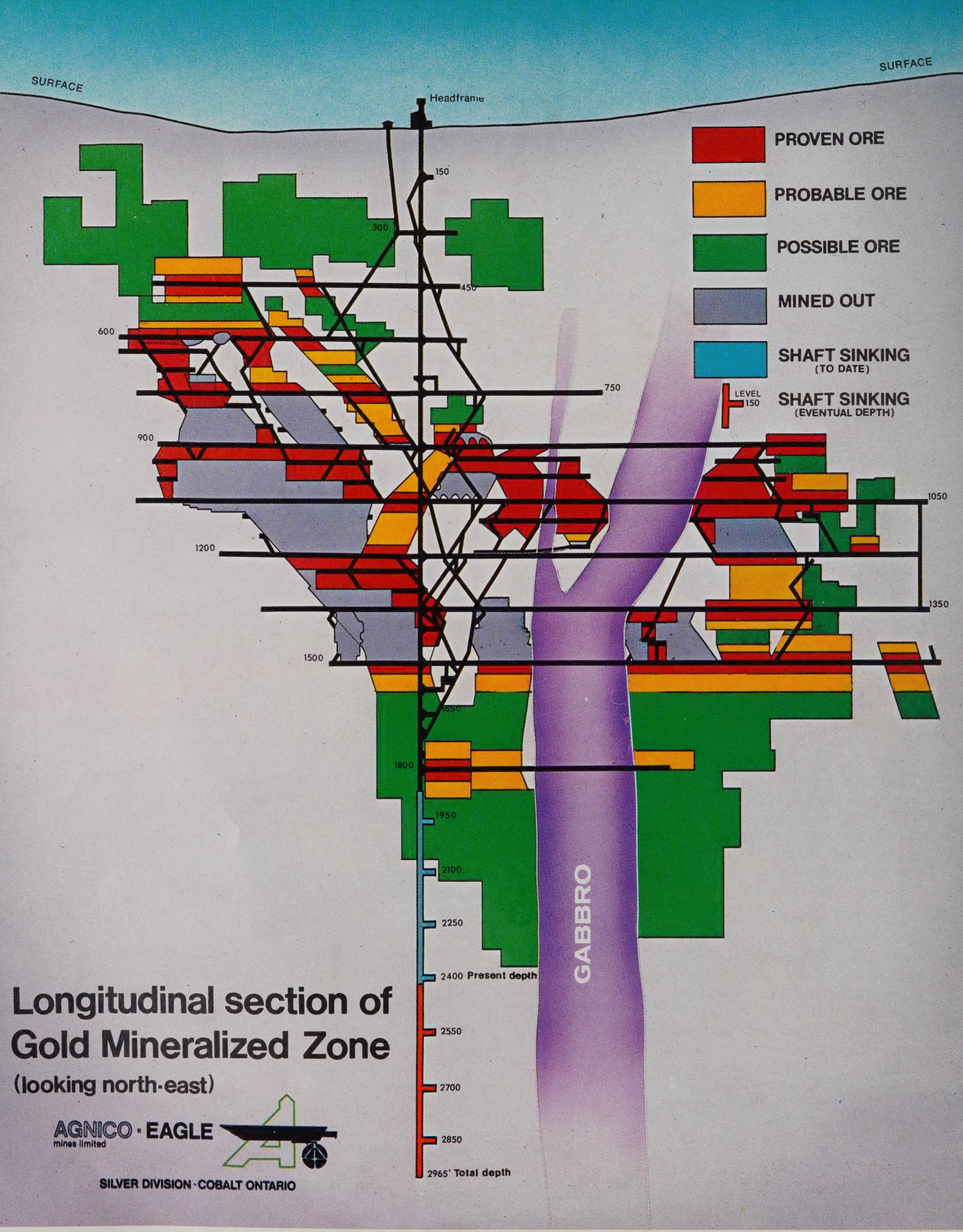
Metallurgical recoveries were significantly improved during the year, with an overall average recovery rate of 90.19% which is approximately 10% higher than the 1975 average of 82.14%. A notable achievement in 1976 was the modest increase in the costs per ton of ore treated, from $16.80 per ton in 1975 to $17.18 in 1976, an increase of just over 2%.

Ore reserves at December 31, 1976 of 2,222,655 tons of an average grade of 0.28 ounce of gold per ton, compare with 2,601,883 tons grading 0.27 ounce per ton at the end of 1975. The currently defined reserves represent mill requirements for more than six years at current production rates.

The concentration of development and other related work in the upper levels of the mine during the year, together with the shaft deepening program, all of which were carried out by Company employees, precluded the usual efforts to locate replacement ore reserves in 1976.

A total of 14 holes were drilled below the 1500 foot production level during the period from January to April, 1976. Two of these were flat holes drilled to outline the limit of the ore west of the shaft at and below the 1800 foot level. Four flat holes and one down hole were also drilled from the 1800 foot level with the flat holes returning values up to 0.91 ounce per ton and the down hole intersecting ore grade material approximately 350 feet below the level horizon.

Four flat holes and two down holes were also drilled from the 1650 foot main crosscut, each returning similar wide and good grade ore with the principal intersections varying from 0.32 ounce across 39.0 feet to 0.72 ounce across 20.0 feet. These holes extend the ore in the area west and east of the shaft, as indicated on the appended longitudinal section of the mine workings.



Longitudinal section of Gold Mineralized Zone

(looking north-east)

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mines limited

SILVER DIVISION · COBALT ONTARIO

For the most part, drilling only has been carried out below the 1500 foot level for the determination of ore reserves for this area of the mine. These obtained at least reserve grade ore intersections to a current maximum depth approximately 750 feet below the 1500 level horizon and over a lateral extent of up to 1,000 feet at a point 350 feet below the 1500 level, both east and west of the shaft. The tenor of values indicate ore enrichment at the lower horizons.

Of the total ore reserves, approximately 1,130,000 tons occur within the mine area between the 1500 foot level and surface, grading approximately 0.25 ounce of gold per ton. The average grade of reserves below the 1500 foot level to the approximate 2,300 foot horizon, as currently defined in the comparatively limited work at the deeper horizons, is significantly higher at 0.31 ounce of gold per ton.

The currently defined dimensions of the gold mineralized zone containing the ore lenses are impressive. It has been established through diamond drilling and lateral work underground for a length of about 2,000 feet, extending virtually from surface to a tested depth of approximately 2,300 feet.

The zone is open for extension both to the southeast into the Company-owned Telbel property as well as to depth. It is centrally located on nearly three miles of strike length along the main gold bearing structure that extends in a northwest-southeast direction across the contiguous main property and the Telbel ground. Geologically, there are also possibilities for other parallel zones throughout this strike length and at depth.

At the completion of the shaft deepening program which will extend the workings to a depth of nearly 3,000 feet, drill stations will be established at appropriate locations to confirm the downward continuation of the ore structure to this horizon. In addition, it is planned to commence the long drive to the Telbel property on the 2250 foot level after the shaft deepening has been completed.

The detailed report of the mine manager, gold division, appears on pages 15 to 17.

Silver Division

Production in 1976 was appreciably below expectations with the open stopes near surface at the Coniagas Mine providing the main source of ore which averaged 5.81 ounces of silver per ton as compared to the 1975 mill feed grading 18.44 ounces per ton. The Trout Lake Mine in South Lorrain Township provided the bulk of the 1975 ore whereas in 1976 it was obtained from the Coniagas Mine.

Operations at the Company's Penn Mill commenced on May 17, 1976 and were temporarily discontinued during January of this year due to freezing conditions which made it difficult to process ore from the open stope at the Coniagas Mine. The mill has recently recommenced operation with initial feed coming from the stockpiled ore at the Coniagas.

Mar 9 restart

Diamond drilling for branch veins in the walls of stopes in the former productive areas of the Coniagas Mine continued throughout most of the year and this exploration drilling was moderately successful in locating small ore shoots. A raise above the 248 foot level has located a flat-lying vein and this is currently being slashed to provide broken ore grading 13.8 ounces of silver per ton.

The recent discoveries in the substantial underground program at the Beaver-Temiskaming where three areas are now accessible by drifting and/or raising, will provide an important source of better grade mill feed during the current year. The detailed review of this project which follows, provides information that clearly indicates the likelihood of substantially increased silver production for 1977 and the years ahead.

The detailed report of the mine manager, silver division, appears on pages 19 and 20.

Beaver-Temiskaming Project

The substantial underground program being carried out on the assemblage of five properties with a combined area of some 256 acres, encompassing five former producing silver mines and designated as the 'Beaver-Temiskaming Project', derived from a geological concept developed by the Company's staff back in 1971.

It was based on the premise of exploring what is known as the lower contact of the Nipissing diabase sill in two principal areas, the **Trout Lake Mine** and the contiguous Keeley and Frontier mines located in South Lorrain Township, about 15 miles southeast of the main Cobalt Camp; and the **Cobalt Lode-Brady Lake Area,** located in Coleman Township which contains most of the major former silver producers of the Cobalt Silver Camp of Ontario.

The Cobalt Lode-Brady Lake Area which constitutes the 'Beaver-Temiskaming Project' includes the former silver producing Beaver, Temiskaming, Cobalt Lode, Christopher and Brady Lake mines.

These two separate areas were notable in that the major production

was obtained from the upper contact zone. In the case of the Trout Lake and the contiguous mines there was a combined production of 22.6 million ounces from the upper contact of the Nipissing diabase sill. Similarly, at the five mines comprising the Beaver-Temiskaming Project, there was a combined production of 34.8 million ounces from the same horizon. The common factor for these two areas was the existence of shafts giving access at depth to the lower contact of the Nipissing diabase.

The contrast between these two areas and almost all other mines in the Cobalt Silver Camp and the surrounding sectors, is that of the nearly 600 million ounces of silver produced since discovery in the early 1900's, some 500 million ounces were produced from the lower contact where it existed at depths seldom exceeding 500 feet from surface.

The shafts in the Trout Lake area provided access to the lower contact at a depth of about 1,420 feet below surface; and the Beaver and Temiskaming shafts at the Cobalt Lode-Brady Lake area were sunk to depths of approximately 1,600 feet.

Your Company successfully explored and developed the Trout Lake Mine commencing in 1968 and in an approximate three-year period from 1973 to 1975, recovered 1.8 million ounces of silver from the lower contact.

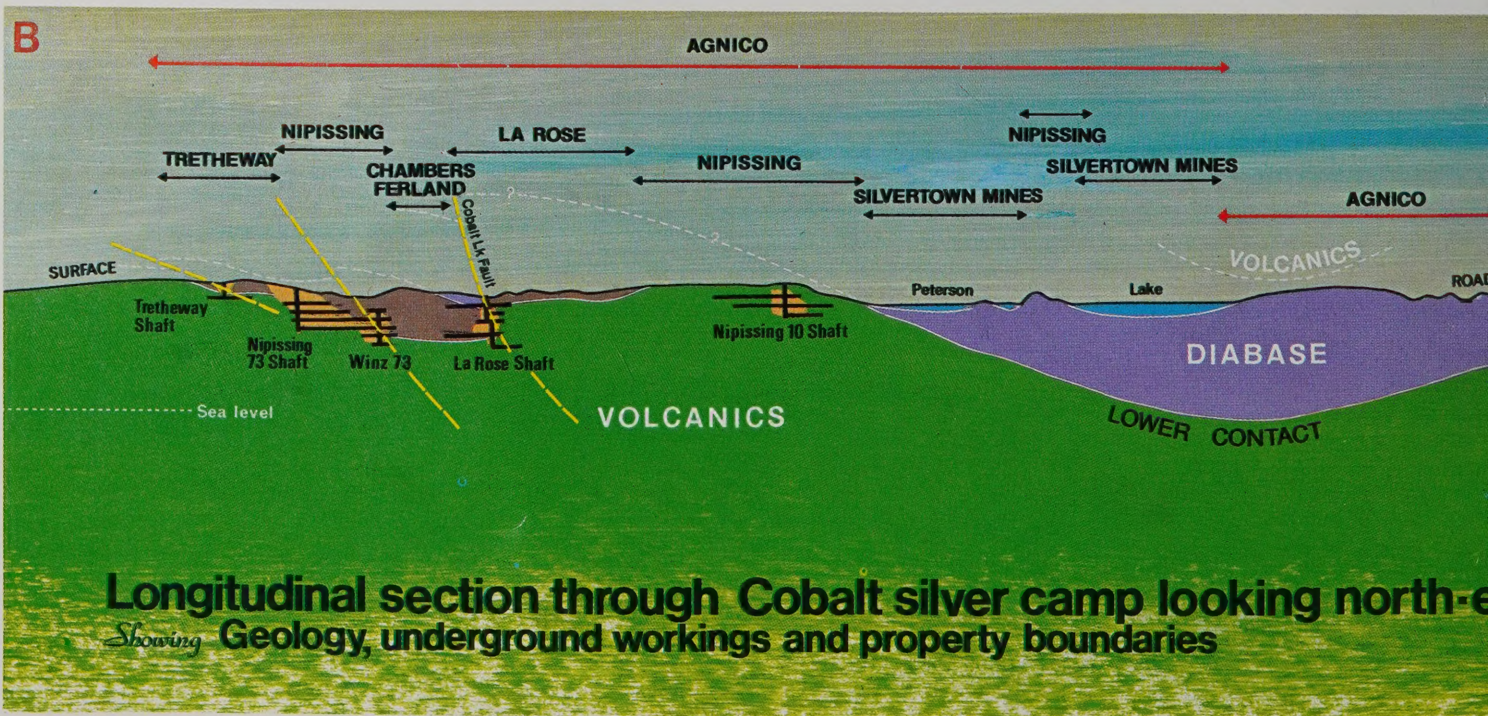
The current program at the Beaver-Temiskaming is directed toward a similar target — the exploration of the lower contact of the Nipissing diabase sill. A series of drawings are included in this Annual Report to illustrate both the geology of the area and a dimensional view of the underground workings relating to the Beaver and Temiskaming shafts.

After installing the necessary hoist and power transformers, pumping operations commenced at the Beaver-Temiskaming in November of 1972. Dewatering and rehabilitation of the shaft continued until early 1975 when the project was temporarily deferred, essentially due to a shortage of experienced miners in the area at that time. Work resumed toward the end of 1975 and has been continuous since that time.

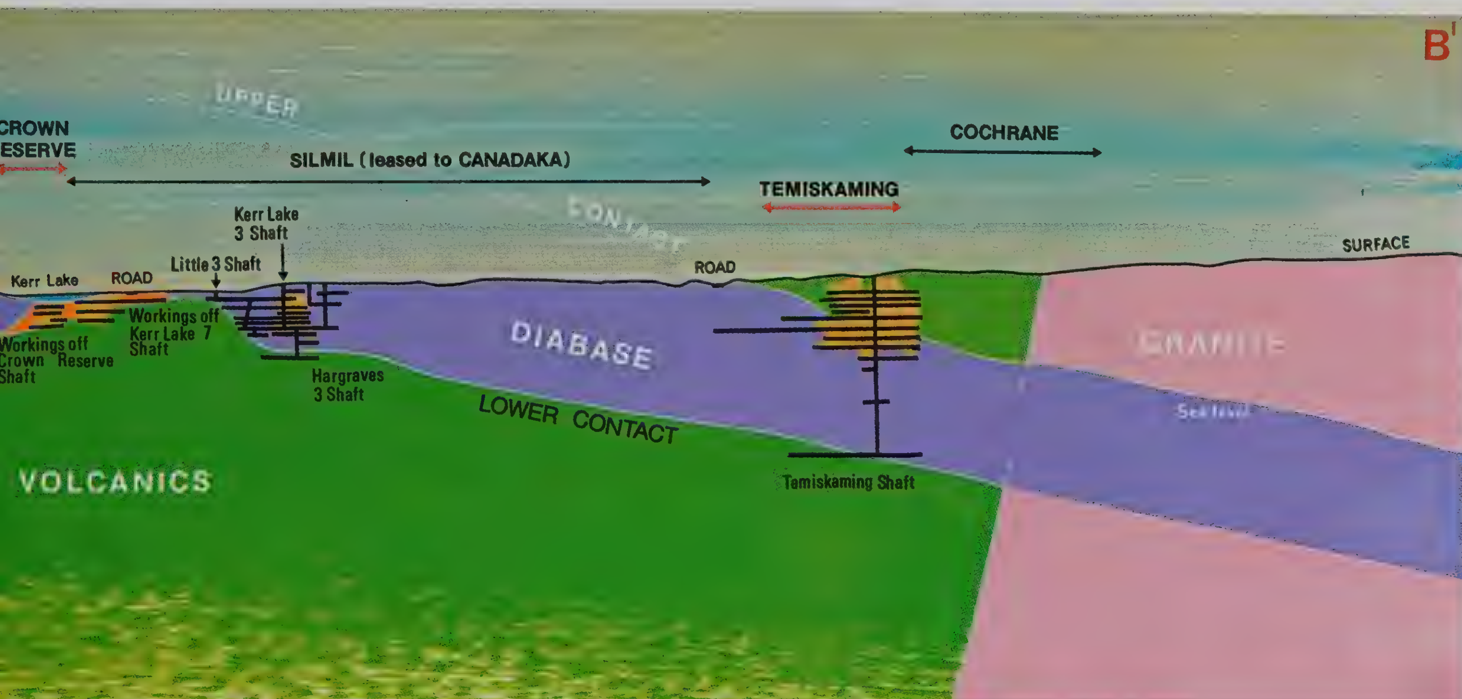
An exploration crosscut on the 1600 foot level was started from the south boundary of the Temiskaming property and driven southeast into the Cobalt Lode and Christopher properties for a total advance of 2,669 feet to the end of 1976. Underground diamond drilling commenced in March of 1976 and in the intervening period to October, some 4,248 feet had been completed. Several encouraging intersections were obtained in this drilling at depths up to 120 feet below the 1600 foot level.

Continued on Page Twelve

The longitudinal section below covers many of the Company's properties in the Cobalt Silver Camp of Ontario, most of which obtained their silver production from the lower contact of the Nipissing diabase sill, the exceptions being the group of five mines which are designated under the title of 'Temiskaming' located toward the right hand side of this illustration. The section B to B¹ is shown on plan in the drawing appearing on page 10. The combined cumulative silver recovery from the properties presently owned or leased by Agnico-Eagle Mines Limited, covering the period of operations by both former owners and Agnico-Eagle, is in excess of 300 million ounces.



Dimensional illustration of Temiskaming and Beaver properties



Agnico-Eagle holdings in the Cobalt silver camp, Ontario

This map was produced from various sources, none being official or certified, all property boundaries are approximate

James H. Priest · Drafting Services
WHITBY ONTARIO

Plan and section of Temiskaming and Beaver properties

Continued from Page Eight

During the period from October to December, the principal work consisted of extending the exploration crosscut to a point where a diamond drill station was established on the Christopher property, reaching its objective early in January of 1977. In total, 12,389 feet of drilling was completed during 1976 and deferred exploration and development costs in connection with this project amounted to $481,237 for the year. In the 1977 first quarter, a further 319 feet of underground advance and 9,119 feet of diamond drilling was carried out at a cost of $171,225.

The major turning point in this project was the intersection obtained in a hole drilled from the exploration drive on the 1600 level that returned an assay of 333.4 ounces of silver over 0.4 feet at 635 feet from the collar, cutting the 1604 vein under the former productive Cobalt Lode Mine. This significant intersection was followed by others, including seven holes that cut the 1601-B Vein about 400 feet northwest of the 1604 vein.

One hole that cut the vein 60 feet above the level assayed 2,542 ounces over 0.4 feet and another hole, which was directed to intersect the vein on the level returning low values in the target area, intersected two other veins with assays of 954.3 ounces over 0.2 feet at 44.8 feet from the collar and 1,300.2 ounces over 0.4 feet at 79.3 feet from the collar. Raising is currently in progress up to the 2,542 ounce intersection.

A very recent hole obtained a significant intersection 140 feet above the 1500 foot level, returning 668.1 ounces across 1.1 feet or 246.5 ounces across 3.0 feet, giving a vertical extent for the vein structure of some 370 feet in this area.

Another area of immediate interest is the Beaver Winze or 16-22 Vein. Prior to 1916, the former Beaver Mining Company drifted 500 feet westward from the main shaft and encountered a high grade ore pocket from which between 30,000 and 40,000 ounces of silver were reputedly extracted prior to the closure of the mine in the early 1920's.

A winze was sunk 70 feet in this earlier operation but the mine was closed down before any lateral work was started from the bottom of the winze. One of several holes drilled in the area produced an intersection of 77.4 ounces over 6.1 feet and another hole cut the vein or structure 105 feet below the winze level, assaying 70.0 ounces over 3.1 feet. Drifting from the bottom of this old winze encountered a pod approximately 30′ x 40′ x 5′ that produced 600 tons grading an average of 15 ounces per ton which was mined. This included some high grade that was bagged.

Vein 16-21, located 400 feet northeast of the Beaver winze, indicated silver mineralization with one hole cutting the vein 62 feet below the level with an assay of 571 ounces over 0.9 feet and another hole that cut the same vein 95 feet below the level obtaining an assay of 14.7 ounces over 7.0 feet.

The results of the drilling to date have revealed five separate areas where significant drill core assays have been obtained. Three of these areas (Vein 16-22, 1601-B and 1604) are accessible by drifting and/or raising and to date two of these areas are being investigated

Considering the results obtained thus far, and the very large area of potential ground in this favourable geology, the possibilities for developing substantial and long range sources of silver production are regarded as most promising.

Financial

Principal expenditures during the year were $218,103 for fixed assets of which $162,948 are applicable to the gold mining division, $277,701 in deferred expenditures relating to the shaft deepening program at the gold mine, and $736,908 in deferred expenditures principally in connection with the Beaver-Temiskaming Project in the Cobalt Camp.

The gross value of bullion and metal production for the combined gold and silver divisions in 1976 amounted to $8,702,653 as compared with $10,997,435 for the previous year. The principal factors relating to the decline in revenue were the reduced gold price and the shortfall in silver production.

As noted, the average price received for gold produced during the year was $123.55 which compares with $160.00 for the previous year. The average price for the first quarter of 1977 will approximate $145.00 per ounce.

In spite of the adverse circumstances arising from the lower gold prices received during the year, your Company's balance sheet reflects improvements in both current assets and current liabilities. Subsequent to the year end, bank indebtedness has been reduced to around $750,000. Working capital deficiency at year end of $773,718 is moderately higher than the year earlier figure of $674,738.

Your Company's outlook for the current year envisages a dramatic turnaround in terms of increased cash flow from mining operations, both as a result of improved production of gold and silver and higher prices for these two precious metals.

There is a concensus that world gold prices have now firmly stabilized a new support base above $140.00 per ounce with the high probability of attaining much higher levels during 1977 and afterward. The bullion markets have not only demonstrated a total resilience to the now monthly sales by the IMF, which in every instance this year have been countered by bidding in amounts approximately three times the quantities offered.

Canadian gold producers are now also aided by the discount on the Canadian dollar which at its current range of around 95¢ in terms of the U.S. dollar (which is the basis for world gold price quotations) equates to an extra $7.50 per ounce with gold at $150.00 and nearly $9.00 per ounce at the frequently projected range of $175.00 per ounce by late 1977.

The directors and management wish to express their appreciation to all members of our operating force, as well as our engineering, mining and geological consultants, for their continuing contribution and dedicated efforts throughout the year.

On behalf of the Board of Directors,

Paul Penna

President and Managing Director

Toronto, Canada
May 18, 1977

Centre foreground is the headframe, hoist house and related mining plant installed at the Trout Lake Mine by the Company to explore and develop the lower contact of the Nipissing diabase underlying the upper contact area from which most of the production in former operations were obtained. This property is in South Lorraine Twp., about 15 miles southeast of the main Cobalt Camp. This exploration project, initiated in 1968, resulted in the recovery of nearly two million ounces from the lower contact during 1973-1975.

Looking northeast across the surface plant at the Joutel Township gold mine of Agnico-Eagle Mines Limited. The new mill extension is housed in the area of the main building toward the lower left hand corner. The Harricana River is northeast of the plant site.

Gold Division
Casier Postal
P.O. Box 310
Joutel, Quebec J0Y 1N0

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Report of the Mine Manager (Gold Division)

March 23, 1977

The President and Directors,
Agnico-Eagle Mines Limited,
Suite 300, 365 Bay Street
Toronto, Ontario M5H 2V1

Gentlemen:

I am pleased to submit the following report regarding operations at the Gold Division of Agnico-Eagle Mines Limited for the year ended December 31, 1976.

Summary

The value of bullion production for 1976 was $7,940,667. During the year a total of 345,538 tons of ore with a calculated grade of 0.206 ounce of gold per ton was treated yielding 64,343 ounces of gold and 17,923 ounces of silver, the latter produced as a by-product.

The mill extension consisting of the new flotation section with secondary grinding, which was commissioned at the end of 1975, resulted in a significant improvement in the overall recovery of gold which averaged 90.19% in 1976 as compared with 82.14% for 1975. In addition to the higher recoveries achieved, the mill extension provides extra ore treatment capacity when it is feasible to increase the operating rate.

Ore reserves show a decrease of 33,690 tons after deducting the 345,538 tons mined during the year. This reflects minor revisions to previous ore reserve calculations in the upper levels of the mine. The heavy emphasis on the development of the upper levels of the mine and the shaft deepening program which is being carried out concurrently utilizing mine employees, restricted the usual efforts toward development of replacement ore reserves during 1976.

Production

In 1976 the mill treated a total of 345,538 tons of ore, an average per calendar day of 944 tons with the mill operating at approximately 90% of available time. On the basis of actual operating days, the average throughput rate for the year was 1,049 tons daily. The calculated grade of ore treated during the year averaged 0.206 ounce of gold per ton producing 64,343 ounces of gold at a recovery rate of 90.19%. The comparative figures for 1975 were the treatment of 309,524 tons averaging 0.233 ounce per ton producing 59,224 ounces of gold at a recovery of 82.14%.

Additions to the mill substantially achieved the projected objectives in terms of flotation recoveries which averaged 97.87% and overall recoveries close to prediction at 90.19%. The highest monthly average flotation recovery during 1976 was 98.45% and the highest monthly average overall gold recovery was 92.58%.

The grade of ore treated during the year at 0.206 ounce per ton is about 16% below the reserve average of 0.25 ounce per ton for the area above the 1500 ft. level from which 1976 production was obtained. This is a factor of involuntary dilution in stoping and studies are being made with a view to a possible modification of the mining methods to achieve a closer relationship between mill feed and reserve grade.

Mine Operating Costs

Notwithstanding the industry-wide trend toward higher costs for labour, services and supplies, costs per ton of ore treated during 1976 of $17.18 compare favourably with $16.81 per ton in the previous year. The containment of operating costs under these circumstances reflects the increased mill throughput rates and the general improvement in operating efficiency.

Underground Development

The shaft deepening project which commenced mid-1976 is proceeding on schedule and during March the 2250 station and lip pocket at that station was excavated. At the current rate of progress it is anticipated that this phase of the project should be completed to the objective depth of 2,965 feet during September of 1977.

Lateral development in the upper part of the mine is also proceeding on schedule and the 600, 450, 300 and 150 level development should be completed during the last quarter of 1977. The mine development crews will then be transferred to the new lower levels to commence development below the current bottom production level at 1,500 feet.

Commencement of the long exploration drive from the 2250 level to the contiguous Company-owned Telbel property is planned after the completion of the shaft deepening project.

Development completed in 1976, with comparative data for 1975, was as follows:

	1976	1975
Drifting, subdrifting and crosscutting — feet	8,366	6,773
Raising — feet	4,469	3,062
Shaft deepening — feet	186	—
Total tons of ore broken (development and mining)	345,528	295,421
Total tons of waste broken	47,823	23,762
Long hole drilling — feet	148,647	174,509
Diamond drilling — feet	18,060	20,176

Ore Reserves

Total proven, probable and indicated ore reserves at December 31, 1976, including an allowance for mining dilution, were 2,222,655 tons of 0.28 ounce of gold per ton. This is a decrease of 379,228 after the milling of 345,538 tons in 1976. Details of the ore reserves are as follows:

Category	Tons at Year End 1976	Tons at Year End 1975
Proven ore — tons	599,688	705,134
— oz/ton	0.25	0.25
Probable ore — tons	359,470	377,935
— oz/ton	0.29	0.27
Total proven and probable — tons	959,158	1,083,069
— oz/ton	0.26	0.26
Indicated ore — tons	1,263,497	1,518,814
— oz/ton	0.29	0.29
Total — all categories — tons	2,222,655	2,601,883
— oz/ton	0.28	0.27

Of the foregoing total ore reserves, approximately 1,130,000 tons occur within the mine area between the 1500 level and surface of which more than 60% represents proven and probable categories. The average grade of all ore categories between the 1500 level and surface is 0.25 ounce of gold per ton. The average grade of ore below the 1500 level to the approximate 2,300 foot horizon, as currently defined in comparatively limited work at the deeper horizons, is 0.31 ounce of gold per ton.

At a production rate of 1,000 tons per day, the total proven, probable and indicated tonnage represents in excess of a six year reserve.

General

Labour relations continued favourable throughout the year. A new two-year contract was signed with the United Steelworkers of America, covering employees at the Company's gold division mining and milling operations and extends through to January, 1979. The work force at year end was 180 including the shaft sinking crew.

In conclusion, I would like to take this opportunity to again thank all employees and staff for their loyal and efficient work during the past year.

Respectfully submitted,

Donald J. LaRonde, B.Sc., P.Eng.
Mine Manager

__Above:__ The old Temiskaming Mine, one of Cobalt's early producers now owned by Agnico-Eagle, recorded a recovery of 11.7 million ounces of silver in the period between 1904 to 1922, all of it obtained from the upper contact of the Nipissing diabase. The Temiskaming and the nearby Beaver shafts were the only two openings that were sunk down through the thick sill to the approximate 1,600 foot horizon in the Cobalt Camp. In contrast, most of the Cobalt producers which obtained their production from the lower contact of the Nipissing, generally mined from depths of 500 feet or less. __Top Right:__ The Coniagas Mine headframe and office; pictures below are of the open stope at the Coniagas Mine which provided most of the 1976 silver ore. __Below:__ Shaft headframe and mining plant at the Beaver Mine. The Beaver and Temiskaming shafts are connected by a crosscut on the 1600 foot level and during 1975-1976 a total of 2,669 feet of crosscutting and drifting had been completed from this underground access. ***See dimensional drawing on page nine.***

Silver Division
P.O. Box 140,
Cobalt, Ontario P0J 1C0

AGNICO-EAGLE
mines limited

Report of the Mine Manager (Silver Division)

The President and Directors,
Agnico-Eagle Mines Limited,
Suite 300-365 Bay Street,
TORONTO, Ontario. M5H 2V1.

April 15, 1977.

Gentlemen:

I am pleased to submit the following report covering the operations at the Silver Division of Agnico-Eagle Mines Limited for the year ended December 31, 1976.

PRODUCTION

Production during the year was provided by the Coniagas Mine from low grade ore broken in the open stopes near surface. The mill operated from May to December producing 192,884 ounces of silver from 41,455 tons of ore.

The following is a summary of the main production items:

Ounces silver produced	192,884.75
Pounds cobalt produced	8,987
Gross value of metals sold	$761,586.03
Gross value per ounce of silver	$3.95
Tons ore milled from Company properties	41,455
Tons ore hoisted	45,090
Calculated head ounces silver/ton	5.81
Recovered ounces silver/ton	4.65
Extraction efficiency	80.03%

EXPLORATION AND DEVELOPMENT

Coniagas Mine — Development headings driven during the year were mostly short sub-drifts and raises. Some of these headings developed small ore shoots while other headings provided access to old workings for the removal of broken ore.

The open stopes near surface provided the main mill feed during the operating season. After slashing the ore off the wall of the stopes where small veins and disseminated silver occur, the openings were large enough to permit trucks to be loaded in the stope and haul the ore directly to the mill. This has resulted in reduced mining costs.

One diamond drill was employed during most of the year testing for branch veins in the walls of stopes in former productive areas. This exploration drilling was moderately successful in locating small ore shoots.

Beaver-Temiskaming Mine — The Beaver and Temiskaming properties are contiguous with both having shafts to a depth of 1,600 feet. The shafts are connected by a crosscut on the 1600 foot level at the lower contact of the Nipissing diabase sill. An exploration crosscut on the 1600 foot level started from the south boundary of the Temiskaming property and was driven southwest into the Cobalt Lode and Christopher properties for a total advance of 2,669.0 feet to the end of the year. A diamond drill station was established at the end of a branch crosscut driven northwest to a point near the Brady Lake property. The main crosscut continued south through the Cobalt Lode property where two more diamond drill stations were established and then continued into the Christopher property where another large diamond drill station was excavated at the end of the crosscut. These diamond drill stations provide a base from which exploration drilling can probe the lower contact of the Nipissing diabase sill beneath the former highly productive zones of the upper contact.

The diamond drill program carried out on the lower contact workings completed 12,389 feet of exploration drilling up to year end. The most significant results of this drilling were obtained in the Beaver winze area, while drilling in other areas has provided valuable geological information.

A winze on the Beaver property sunk to a depth of some 70 feet below the 1600 foot level by the original owners was pumped out and examined. Since previous drilling had indicated silver values to be present along strike in the strong vein on which the winze was sunk, it was decided to rehabilitate the winze, install an air hoist and then drift on the vein. Highgrade silver was encountered in this drifting some of which was rich enough to be bagged.

Recent developments indicate that this property could have a long and productive life.

Nipissing Property — Five diamond drill holes were drilled from surface beneath an old open cut stope on the east side of Cobalt Lake near #81 Shaft. All five holes intersected a cobalt vein one of which had fair silver values. This vein is still open to the east and will be further explored at a later date.

The following is a tabulation of this exploration and development:

	1976 Footage	Unit Cost	1975 Footage	Unit Cost
Crosscutting & Drifting	2,948	$120.68	2,809	$103.81
Raising	276	99.55	1,169	78.28
U/G Diamond Drilling	18,380	9.80	22,147	8.37
Surface Diamond Drilling	378	5.66	5,609	11.78

Concentrate Treatment — Both flotation concentrates and gravity concentrates are now shipped and sold to the Canadian Smelting and Refining Limited, Cobalt, Ontario.

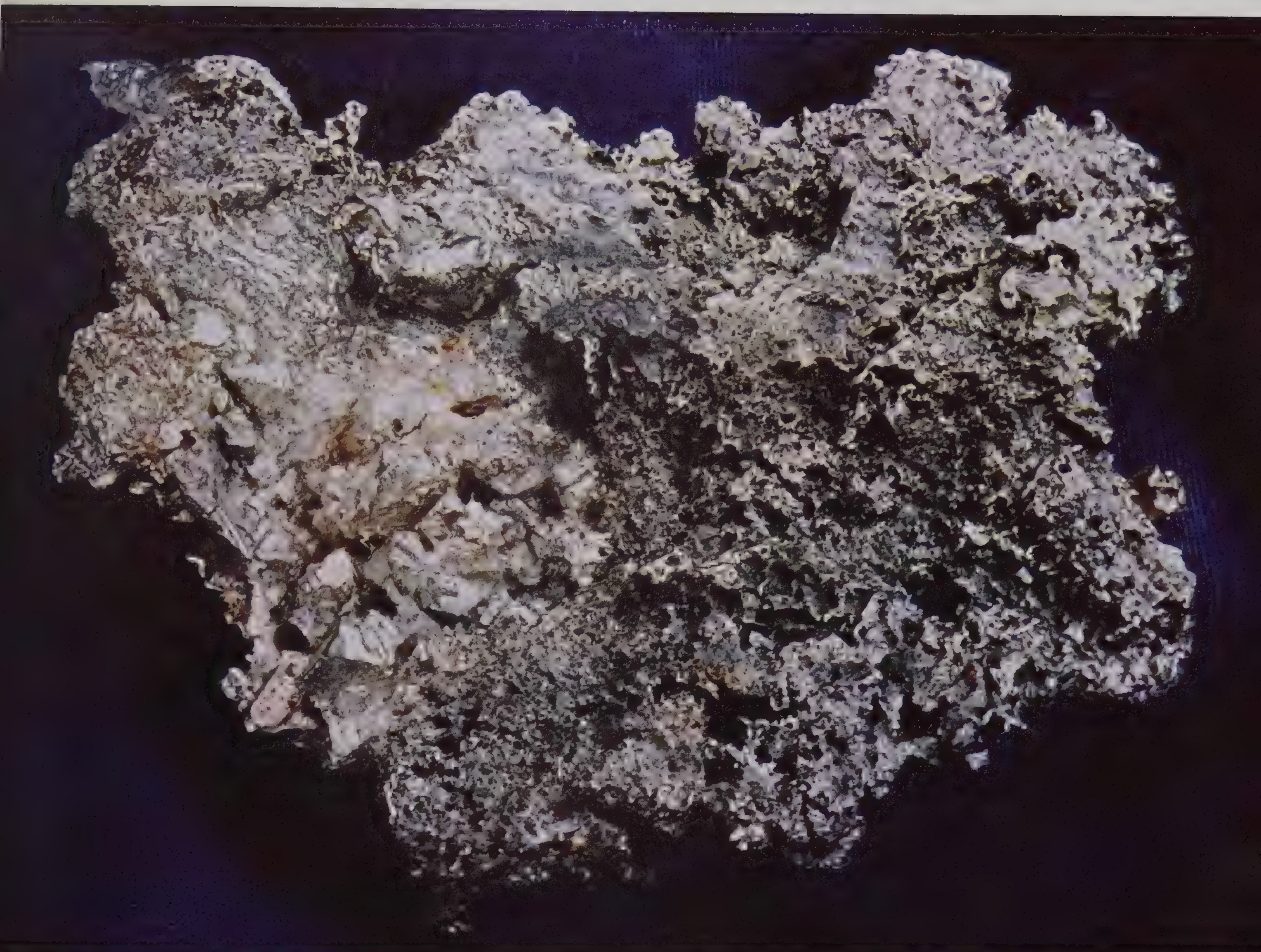
Changes made in the flotation circuit produced a much higher grade of flotation concentrate resulting in lower marketing costs.

Labour Relations — Relations with our employees have remained harmonious during the year. The present contract with the United Steelworkers of America is due to terminate June 30, 1977.

In conclusion, I wish to extend my appreciation to the Board of Directors, staff and employees for their cooperation and assistance throughout the year.

Respectfully submitted,

G. W. KIRK, P.Eng.,
Manager.



This is a typical piece of plate silver from the Cobalt Camp. The fine specimen shown above, which is nearly actual size, would be approximately 90% pure silver and contains close to 50 troy ounces. The Cobalt Camp is noted for its narrow but often extremely rich silver veins. In the heyday of the early production after the turn of the century, high grade silver was often bagged and shipped direct to the smelters, sometimes averaging 5,000 ounces to the ton or more.

Consolidated Balance Sheet

AS AT DECEMBER 31, 1976

ASSETS

CURRENT

Cash
Accounts receivable
Marketable securities (at cost which approximates market)
Smelter settlements receivable
Concentrates on hand
Supplies, at average cost
Prepaid expenses and deposits

FIXED (Note 2)

MINING CLAIMS AND PROPERTIES (Note 3)

DEFERRED EXPENDITURES

Silver Division
Gold Division

OTHER

Shares of unlisted companies, at nominal value
Amalgamation expenses, at cost

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank indebtedness, secured by inventory, receivables and fixed assets
Accounts payable and accrued charges
Estimated mining taxes payable (Note 9)
Advances from affiliated companies — 10%

Minority interest in subsidiary

SHAREHOLDERS' EQUITY

Capital (Note 4)
Authorized — 20,000,000 shares without par value
Issued and fully paid — 13,861,827 shares
Retained earnings

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board of Directors:

PAUL PENNA, Director
MILTON KLYMAN, Director

1976	1975
$ 8,179	$ 10,091
69,206	37,779
249,121	149,602
364,358	228,127
386,957	335,224
512,133	556,346
372,032	410,712
1,961,986	1,727,881
6,675,552	7,523,986
583,426	703,426
1,303,410	1,080,721
5,118,631	5,636,144
6,422,041	6,716,865
3	3
82,879	82,879
82,882	82,882
$15,725,887	$16,755,040
$ 1,705,000	$ 216,985
945,632	1,710,574
—	137,000
85,072	338,060
2,735,704	2,402,619
5,100	5,100
12,947,145	12,947,145
37,938	1,400,176
12,985,083	14,347,321
$15,725,887	$16,755,040

AUDITORS' REPORT

To the Shareholders of
Agnico-Eagle Mines Limited

We have examined the consolidated balance sheet of Agnico-Eagle Mines Limited as at December 31, 1976 and the consolidated statements of retained earnings, income, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN,
BERGER & GRILL
Chartered Accountants

Toronto, Ontario
March 7, 1977

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
REVENUE		
Production of metals	$ 8,702,653	$10,997,435
Less: Marketing	143,214	290,531
Royalties	—	89,369
	143,214	379,900
	8,559,439	10,617,535
EXPENSES		
Mining	3,514,188	3,352,626
Milling	3,119,465	2,591,399
Administration	685,367	777,533
Transportation of mill ore	113,770	92,079
	7,432,790	6,813,637
Less: Sundry income	7,083	33,356
	7,425,707	6,780,281
INCOME BEFORE UNDERNOTED ITEMS	1,133,732	3,837,254
Amortization of deferred expenditures	1,429,433	751,218
Depreciation of buildings, machinery and equipment	1,066,537	927,212
Exploration expenditures on properties abandoned	—	588,492
	2,495,970	2,266,922
INCOME (LOSS) BEFORE TAXES (Note 5)	(1,362,238)	1,570,332
Provision for income taxes	—	581,246
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(1,362,238)	989,086
Extraordinary items	—	281,246
NET INCOME (LOSS) FOR THE YEAR	$(1,362,238)	$ 1,270,332
EARNINGS (LOSS) PER SHARE BEFORE EXTRAORDINARY ITEMS	(9.8¢)	7.1¢
EARNINGS (LOSS) PER SHARE	(9.8¢)	9.2¢

The accompanying notes form an integral part of these financial statements.

AGNICO-EAGLE

1st. Quarter

revenue 2,195,898
vs 2,165,442

loss (128,964) vs 75,644
or .54

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
RETAINED EARNINGS — beginning of year	$ 1,400,176	$ 129,844
Net income (loss) for year	(1,362,238)	1,270,332
RETAINED EARNINGS — end of year	$ 37,938	$ 1,400,176

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
SOURCES OF WORKING CAPITAL		
From Operations		
Net income (loss) for year	$(1,362,238)	$ 1,270,332
Add: Items which do not require a current outlay of working capital		
— depreciation	1,066,537	927,212
— amortization of deferred expenditures	1,429,433	751,218
— deferred exploration expenditures on properties abandoned	—	517,316
	1,232,712	1,818,059
APPLICATIONS OF WORKING CAPITAL		
Deferred expenditures — Gold Division	277,701	—
Deferred expenditures — Silver Division	736,908	717,233
Buildings, machinery and equipment (net)	218,103	1,180,826
	1,232,712	1,898,059
INCREASE (DECREASE) IN WORKING CAPITAL	(98,980)	1,568,019
WORKING CAPITAL DEFICIENCY — beginning of year	674,738	2,242,757
WORKING CAPITAL DEFICIENCY — end of year	$ 773,718	$ 674,738

The accompanying notes form an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. SUMMARY OF ACCOUNTING POLICIES

ACCOUNTING FOR SUBSIDIARIES

These financial statements include the accounts of the Company's 97% owned subsidiary, Telbel Mines Limited. The investment in the Company's dormant wholly-owned subsidiaries is carried at nominal value.

DEFERRED EXPENDITURES AND AMORTIZATION

The amounts shown for deferred expenditures represent costs to date less amounts written off and are not intended to reflect present or future values. Exploration costs related to unknown or unproven ore bodies are deferred until such time as production occurs. Development costs related to the shaft deepening program at the Gold Division are being deferred until this area is brought into production. Amortization of deferred expenditures is calculated on a unit of production basis based on the ore reserves of each mine.

DEPRECIATION

The Gold Division records depreciation on a unit of production basis based on the ore reserves of the mine. The Silver Division records depreciation on a 30% declining balance basis due to the erratic nature of the ore bodies.

INVENTORIES

Supplies are valued at average cost. Broken ore on surface is not valued; the related costs are written off to operations as incurred. Concentrates on hand are valued at estimated realizable value.

SMELTER SETTLEMENTS

Smelter settlements receivable are estimates of the final amount to be received. Estimates are set up immediately upon shipment.

PLANT AND EQUIPMENT ADDITIONS AND REPAIRS

Repairs and maintenance are charged to operations or deferred expenditures while additions, replacements or improvements to existing plant and equipment are capitalized.

2. FIXED ASSETS

The fixed asset balance by division is as follows:

	1976	1975
SILVER DIVISION		
Buildings, machinery and equipment, at cost	$ 2,598,836	$ 2,544,212
Less: Accumulated depreciation	2,476,834	2,427,119
	122,002	117,093
GOLD DIVISION		
Building, machinery and equipment, at cost	8,915,475	8,751,996
Less: Accumulated depreciation	2,361,925	1,345,103
	6,553,550	7,406,893
	$ 6,675,552	$ 7,523,986

3. **MINING CLAIMS AND PROPERTIES**

The Company owns approximately 97% of the outstanding capital stock of Telbel Mines Limited. The chief assets of Telbel Mines Limited are mining development licences on 34 claims adjacent to the Company's Gold Division mining property.

In 1974 the Company was the successful bidder on two mining leases in the Cobalt area, formerly known as the Coniagas and Trethewey mines, for a first year lease rental payment of $252,000 which has been included in mining claims and properties. This lease rental payment is being amortized on the same basis as the deferred exploration on the property. In subsequent years nominal lease rental payments are required.

4. **CAPITAL**

The Company has allotted 200,000 shares for a stock option for its President at $7.45 per share until August 15, 1984. No part of the option has been exercised to date.

5. **INCOME TAXES**

For income tax purposes the Company may claim certain expenses in amounts which may differ from the related provisions recorded for accounting purposes.

In addition to unused deductions for exploration, development, administration and capital cost allowance which may be claimed at varying rates for tax purposes against future profits of the Company, the Company may also write off against mining profits a portion of its earned depletion base. The depletion base is presently accumulated at the rate of $1 for every $3 spent in eligible expenditures and is deducted at the rate of $1 for every $4 earned in mining profits. As at December 31, 1976 the Company had approximately $10,000,000 in unused deductions resulting from timing differences and approximately $14,000,000 in its earned depletion base.

6. **COMMITMENTS**

The Company has a management contract with its President for $125,000 per year while he is associated with the Company and $62,500 per year for five years subsequent to the termination of his employment contract.

The Company has entered into a pension plan for all of its salaried employees. According to the terms of the plan there are past service funding requirements amounting to approximately $200,000 which will be amortized with interest over a 15 year period.

7. **OTHER STATUTORY INFORMATION**

Aggregate direct remuneration of directors and senior officers as defined by the Business Corporations Act amounted to $289,073 for the year ended December 31, 1976.

8. **MINING TAXES PAYABLE**

The Company is appealing an assessment of Ontario mining taxes in the amount of approximately $137,000 for 1973.

9. **ANTI-INFLATION LEGISLATION**

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued regulations which are to be in force until December 31, 1978. Under this legislation, the Company is subject to mandatory controls restricting the payment of dividends to shareholders. The maximum annual dividend that could be paid is limited to 25% of the Company's net income for the year ended December 31, 1974.

10. **PRIOR YEAR FIGURES**

Certain 1975 figures have been reclassified to conform with the presentation adopted for 1976.

The map above shows the main 60-claim property and the adjoining 34-claim property held by the Company's 97% owned subsidiary, Telbel Mines Limited. The longitudinal section appearing on page six of this Annual Report is shown on the above drawing as a solid red bar with the longitudinal projection to the northeast.

These two properties provide nearly three miles of strike length along the main gold bearing structure which extends northwest by southeast throughout the entire extent of the claims. The gold orebody, as presently defined, is located almost central on this approximate three mile strike length. During the main underground program in the 1967-1970 period, development headings on four levels down to the 1500 foot level were advanced to within about 50 feet from the boundary between these two properties. The adjacent Telbel property was acquired by Agnico-Eagle early in 1971 to provide the essential protection for the projected extension of the main ore structure into this adjoining property.

The scheduled long drive from the 2250 foot level will have, as its ultimate objective, the purpose of testing the indicated extension of this main structure into the Telbel portion of the Company's combined properties. It will also test an approximate 1,500 feet of potential ground between the shaft and the Telbel boundary.

Printed in Canada.

Clockwise from upper left: Aerial view of surface plant at the Joutel gold mine of Agnico-Eagle Mines Limited; Pouring gold bar in the Agnico-Eagle refinery; Some of the grinding units in the mill; Scooptram mucking ore from the stope area.

File

AGNICO-EAGLE
mines limited

SEMI-ANNUAL REPORT
for the Period Ended June 30, 1976

AGNICO-EAGLE MINES LIMITED

Suite 300, 365 Bay Street
Toronto, Canada M5H 2V1

To the Shareholders:

The Directors present the unaudited consolidated financial statements of the Company for the six months ended June 30, 1976. Comparative financial results for the corresponding period in 1975 are also included.

Consolidated Financial Results

Net revenue from the production of gold and silver bullion for the six months ended June 30, 1976 amounted to $4,269,547 as compared with $5,381,020 for the corresponding period in 1975. This approximate 20% decline in net revenue from production is principally attributable to the lower prices received for gold during the period, partially offset by the approximate 10% increase in the total ounces of gold produced.

The average price received for gold produced during the six months to June 30, 1976 was $127.53 per ounce as opposed to $174.09 for the same period last year.

Cash flow for the six months ended June 30, 1976 amounted to $592,882 versus $2,123,901 for the same period in 1975. Cash flow represents income before deductions totalling $973,074 for non-current charges for depreciation and amortization, items which do not require an actual cash outlay. Deduction of these non-current charges for depreciation and amortization resulted in a net loss for the six months ended June 30, 1976 of $380,192 or 2.7¢ per share. The comparative figures for the same period in 1975 were net income of $33,865 or 0.2¢ per share before an extraordinary item, being the utilization of an unrecorded deferred tax benefit in the amount of $32,536 offsetting a provision for income taxes in a like amount. Including the extraordinary item, net income for the comparative 1975 period was $66,401 or 0.5¢ per share.

Silver Division

Milling operations commenced on May 17th and during the approximate six week period to June 30, 1976 the Penn Mill treated a total of 8,815 tons of ore yielding 63,607 ounces of silver with a gross value of $251,829. Mine operating profit for this six week period, net of operating costs including mining, development, milling and transportation of mill ore, and including miscellaneous income of $792 amounted to $40,981.

Calculated on the same basis, mine operations for the full six months which reflects income from production for only the above mentioned six week period, resulted in an operating loss of $12,466.

Current mill feed is being obtained from open stopes near surface at the Coniagas Mine where a substantial tonnage of ore is stockpiled. Exploration and development is in progress in the underground workings of the Coniagas Mine and during June two areas above the 75 foot level were being prepared for the removal of existing broken ore which is expected to provide a good tonnage of above average grade.

It is expected that the previously estimated 1976 total production of approximately one million ounces of silver will be achieved.

The major exploration and development program at the Beaver-Temiskaming Mine involving the 3,000 foot long exploration drift on the 1,600 foot level to explore the lower contact of the Nipissing Diabase sill continues on schedule.

Recent diamond drilling on the 1,600 foot level north of the shaft has proved encouraging. During June, a series of six holes were put down below the level into the lower contact of the Nipissing Diabase sill to test a vein structure, three of which obtained silver intersections up to 120 feet below the level. Best intersections were 174.2 ounces silver over 3.0 feet and 45.0 ounces over 1.8 feet.

During July, another series of five holes at a different location north of the shaft and similarly directed toward a test of a vein structure in the lower contact returned silver intersections at depths up to 110 feet vertically below the level. The best intersections were in the second hole which cut the vein in two places at approximately 40 feet and 60 feet beneath the level, assaying 77.4 ounces over 6.7 feet and 11.2 ounces over 12.0 feet.

An exploration heading has now been advanced 241 feet in a northwesterly direction toward the Brady Lake property and a diamond drill station has been slashed out at the face of the southwesterly crosscut toward the Cobalt Lode-Christopher property. Diamond drilling will be carried out from stations at both crosscuts to test the possibilities of these two properties.

Gold Division

During the six months ended June 30, 1976 a total of 162,019 tons of ore with a calculated average grade of 0.221 ounce of gold per ton was treated yielding 32,069 ounces of gold at an average metallurgical recovery rate of 89.73%. The significant improvement in recoveries is attributable to the new mill extension which was commissioned at the end of 1975 and during May and June averaged above 91%. In addition to the gold production there was a by-product recovery of 8,789 ounces of silver during the period.

The comparative operating and production statistics for the corresponding period in 1975 were the treatment of 151,703 tons of ore grading 0.236 ounce of gold yielding 29,029 ounces of gold at an average recovery of 81.3%. By-product recovery of silver totalled 7,856 ounces.

The plant was shut down for a seven day period during June reducing available mill time to 23 days during which an average of 1,052.5 tons were treated daily. For the full six month period the mill averaged 890.2 tons daily with the mill operating at approximately 86.4% of available time (including the seven day shut down) or an average of 1,029.8 tons daily on the basis of actual operating days.

Mine operating profit for the six months ended June 30, 1976, after deducting operating expenses including mining, development, milling, assaying, general surface and mine administrative and technical costs, amounted to $1,153,202. Total mining, milling, administrative costs, etc., amounted to $2,951,070 equal to $18.21 per ton of ore milled and approximately $92.00 per ounce of gold recovered.

The major shaft deepening program extending the workings a further 1,100 feet to the 2,925 foot horizon, commenced during the period. This major project which is expected to require some 15 months to complete, will enable the opening up of seven new production levels below the current bottom level at 1,800 feet. The current deepest production level is at 1,500 feet.

Pertinent Comment on Gold

Shareholders are undoubtedly aware of the current depressed gold prices which now stand just below $110 per ounce, the lowest level in the past 30 months and contrasting with the peak of $195 per ounce in December, 1974.

It is patently obvious that the factors influencing current gold prices are far more political than economic.

The decline stems from the stated intention of the U.S. Treasury to demonetize gold, initially evidenced by the planned auction of two million ounces on January 6, 1975 which attracted bids ranging up to $183 per ounce for about half the quantity of gold offered. The U.S. Treasury accepted bids at $153 per ounce or better for approximately 750,000 ounces.

This, incidentally, was at a time when the official price was quoted at $173 per ounce.

The second assault came with the U.S. Treasury announcement early the following June of the intended sale of 500,000 ounces at market related prices. This auction, held on June 30, 1975, attracted some 700 buyers who bid for more than four million ounces with the successful bidders paying $165 per ounce.

From the viewpoint of the U.S. Treasury these two auctions were not successful in that they failed to dampen investor enthusiasm and did not materially depress gold prices. This undoubtedly gave greater momentum to implement the previously devised tactic involving the proposed sale by the U.S. dominated International Monetary Fund of one-sixth of its gold reserves, or 25 million ounces, on the open market.

The IMF plan was unveiled late August, 1975, the principal points being the sale of the 25 million ounces at public auction with the proceeds between the "official" price of $42.42 per ounce and the price realized from the sales to be placed in a trust fund for the benefit of developing countries; and the "restitution" of a further 25 million ounces to IMF member countries. It was also stated that such sales would be undertaken in an orderly fashion to avoid disruption of bullion markets and maximize the amount available for the developing countries.

It took the IMF members some nine months to agree on the scheme and resolve the mechanics of how the gold was to be sold. The plan as finally devised, which would have the important (from the U.S. and IMF viewpoint) objective of staggering the gold sales over a long period, was to auction the 25 million ounces in a series of sales every six weeks, commencing with the first on June 3, 1976 of 780,000 ounces for which the successful bidders paid $126 per ounce. The second auction on July 14th brought a price of $122 per ounce, and a third auction is scheduled for September 15th, which – if held – will predictably yield an even lower price.

The effect of these sales is clearly contrary to the stated purposes of the agreement reached in early January by the IMF member countries, indicating that the main objective of demonetization is taking precedence over other policies, mainly the orderly marketing of gold without disrupting prices, and maximizing the trust fund for the underdeveloped nations.

The net proceeds from the first two auctions total about $127 million and if the remainder of the 25 million ounces is sold at levels below $130 per ounce, the total realization for the underdeveloped countries would be slightly above $2 billion as compared with the present $135 billion of foreign indebtedness of these countries.

One could conjecture that the main purpose of the sales by the U.S. Treasury and the IMF is to simultaneously affect demonetization and depress the gold price.

It should be noted that no other monetary authority, apart from the United States, has undertaken large-scale sales of gold for the purpose of constraining bullion prices. Some may recall that back in the 1960's the U.S. organized the ill-fated "London Gold Pool" for essentially the same purpose. And it failed miserably under far more favourable political and economic circumstances than those now prevailing, despite the dumping of 2,500 metric tons of gold – the equivalent of nearly 70 million ounces – in an effort to keep a lid on the $35 gold price.

Under the "London Gold Pool" agreement, half of this 2,500 metric ton dump was provided by the United States. The gold pool was terminated on March 17, 1968.

The fiction of an "official" gold price was finally put to rest in August, 1971 with the suspension of dollar convertibility. When the U.S. closed the gold window in 1971 foreign official institutions including central banks held over $100 billion of U.S. currencies and government obligations theoretically backed by the U.S. gold reserves then valued at slightly over $10 billion.

The aggressive and dedicated pursuit of demonetization of gold is to remove that link between the U.S. gold stockpile and the $100 billion in foreign-held claims against this gold reserve, then valued at approximately $10 billion and now worth about $35 to $40 billion.

The current question is just how long these forces can effectively constrain gold prices and leave in its wake the goldless fiat currencies of the world whose value is determined arbitrarily by whatever each individual country says its money is worth.

The answer defies precise definition and timing. The most obvious fact is that the remaining industrialized and oil producing nations which collectively own some 76% of the world's total gold reserves have a joint vested interest in maintaining not only the value of bullion, but its ultimate essential role in an orderly monetary system.

The short term implications for shareholders of gold mining companies are a narrowing of profit margins for the efficient or low cost operations with medium to higher grade ores, and perhaps the early demise of those high cost producers whose reserves and the potential for adding new tonnage have diminished to the point of no return.

The purpose of the foregoing comments is to focus on the longer term prospects of world gold prices and how these relate to the long term prospects of your Company, as a producer not only of gold, but the other precious bullion, silver.

The sole function of your Company is the mining of gold and silver bullion for ultimate maximum realization of the value of its sub-surface assets. Realistically, the management of your Company must not only recognize the short term events as they affect the short term prices for the products of the Company's mines, but also recognize that it is the long term outlook that will count on the ultimate balance sheet.

Agnico-Eagle is one of the few Canadian gold producers with production costs below current gold prices, viz. $92 per ounce of gold recovered, and can operate in a positive cash flow position at these gold prices, and even sustain production for the likely short term duration of further reduction of world gold prices.

Unlike many Canadian gold producers which are now mining the remnants of once substantial gold deposits, Agnico-Eagle is only now in its second year of commercial production with existing defined reserves equal to approximately seven years of future milling requirements. At the 1975 year end, ore reserves at the Joutel Gold Mine to a tested depth of approximately 2,250 feet amounted to 2.6 million tons grading 0.27 ounce of gold per ton or a content of more than 700,000 ounces of gold.

The reasonable expectation, based on geological and structural considerations as well as mining experience, is that the shaft deepening project which is being commenced this year, and its ultimate development of the mine at depth to open up nine new production levels, is that this reserve figure will increase very substantially.

The probable extraction of these existing and potential reserves will take place over the next 10 to 15 years, and very likely over an even longer period. On the basis of existing monetary facts, it is predictable that the realized price for gold over this longer term period will be substantially higher than current levels or even the 1974-75 price peaks.

The situation with respect to the silver mining division, while dissimilar in terms of the pricing structure for the metal, also is one in which proper emphasis should be placed on the long term outlook.

On behalf of the Board of Directors,

Paul Penna

August 27, 1976

President and Managing Director

AGNICO-EAGLE MINES LIMITED

CONSOLIDATED STATEMENT OF INCOME
(Prepared without Audit)

	Six Months Ended June 30 1976	1975
REVENUE		
Production of metal	$ 4,347,380	$ 5,484,484
Less: Marketing and royalties	77,833	103,464
	4,269,547	5,381,020
EXPENSES		
Mining	1,797,401	1,652,333
Milling	1,485,410	1,231,137
Administration	376,821	352,590
Transportation of mill ore	21,695	40,077
	3,681,327	3,276,137
Less: Sundry income	4,662	19,018
	3,676,665	3,257,119
INCOME BEFORE UNDERNOTED ITEMS	592,882	2,123,901
Amortization of deferred expenditures	489,634	922,495
Depreciation of building, machinery and equipment	483,440	1,135,005
	973,074	2,057,500
INCOME (LOSS) BEFORE TAXES	(380,192)	66,401
Provision for income taxes	–	32,536
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(380,192)	33,865
Utilization of unrecorded deferred tax benefit	–	32,536
NET INCOME (LOSS) FOR PERIOD	$ (380,192)	$ 66,401
EARNINGS(LOSS) PER SHARE BEFORE EXTRAORDINARY ITEM	(2.7¢)	.2¢
EARNINGS (LOSS) PER SHARE	(2.7¢)	.5¢

NOTE: Certain 1975 figures have been reclassified to conform with the presentation adopted for 1976.

AGNICO-EAGLE MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Prepared Without Audit)

	Six Months Ended June 30 1976	1975
SOURCE OF WORKING CAPITAL		
FROM OPERATIONS		
Income (loss) for the period	$ (380,192)	$ 66,401
Add: Items which do not require a current outlay of working capital		
— depreciation	483,440	1,135,005
— amortization of deferred expenditures	489,634	922,495
	592,882	2,123,901
APPLICATION OF WORKING CAPITAL		
Buildings, machinery and equipment (net)	80,275	485,911
Deferred expenditures — Silver Division	469,335	366,283
	549,610	852,194
INCREASE IN WORKING CAPITAL	43,272	1,271,707
WORKING CAPITAL DEFICIENCY — beginning of period	674,738	2,242,757
WORKING CAPITAL DEFICIENCY — end of period	$ 631,466	$ 971,050

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